

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**DULUTH TRANSIT AUTHORITY**  
**(COMPONENT UNIT OF THE**  
**CITY OF DULUTH, MINNESOTA)**

FOR THE YEARS ENDED DECEMBER 31,  
2005 AND 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**DULUTH TRANSIT AUTHORITY  
(COMPONENT UNIT OF THE  
CITY OF DULUTH, MINNESOTA)**

**For the Years Ended December 31, 2005 and 2004**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2005

Term of Office Ends

Board

Directors

District No. 1

Melanie Hendrickson

June 30, 2006

District No. 2

Aaron Bransky

June 30, 2007

District No. 3

Richard Towey

August 31, 2006

District No. 4

Dennis Birchland

June 30, 2008

District No. 5

Tari Rayala

April 30, 2007

At Large

Walter Kramer

June 30, 2006

Timothy Bearheart

June 30, 2007

Isobel Rapaich

June 30, 2006

Appointed by Mayor, City of Superior, Wisconsin

Lewis Martin

March 31, 2006

Officers

President

Isobel Rapaich

Vice President

Aaron Bransky

Management

ATE Management of Duluth, Inc.

Dennis Jensen, General Manager

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**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

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PATRICIA ANDERSON  
STATE AUDITOR

**INDEPENDENT AUDITOR'S REPORT**

Mayor and City Council  
City of Duluth

Board of Directors  
Duluth Transit Authority

We have audited the accompanying basic financial statements of the Duluth Transit Authority, a component unit of the City of Duluth, as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Transit Authority as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2006, on our consideration of the Duluth Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: February 22, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005  
(Unaudited)**

This section presents the Management's Discussion and Analysis (MD&A) of the Duluth Transit Authority's financial condition and activities for the fiscal year ended December 31, 2005. This information should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- The Authority continued in its multi-year contracts for the U-Pass college transportation program.
- The Authority adopted a new fare policy in August of 2005 and at the same time purchased new fareboxes for the buses. With the new fareboxes the Authority was able to adopt a new fare policy that allows many different tickets and passes to be used by the passengers.

**OVERVIEW OF ANNUAL FINANCIAL REPORT**

The MD&A serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's operating budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using accrual accounting methods as used by similar public transit systems.

The financial statements include: a comparative statement of net assets; a comparative statement of revenues, expenses, and changes in net assets; a comparative statement of cash flows; notes to the financial statements; and supplemental information. The comparative statement of net assets presents assets, liabilities, and the net assets invested in capital assets, net of related debt, net assets restricted for transit operations, and the unrestricted net assets of the Authority. The comparative statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and also includes depreciation of capital assets acquired by contributions. The comparative statement of cash flows presents the cash flows from operating activities, noncapital financing activities, capital and related activities, investment activities, and the net cash provided by (used for) operating activities. The comparative statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial

statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. The supplemental information section elaborates on the above-noted financial statements and also examines the transit services provided to the City of Superior, Wisconsin.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted during the independent external audit process.

## **SUMMARY OF ORGANIZATION AND BUSINESS**

On May 24, 1969, the Minnesota State Legislature enacted 1969 Minn. Laws, Chapter 720 ("the Duluth transit authority act of 1969."), creating the Authority. The mission of the Authority pursuant to this law is ". . . to administer, promote, control, direct, manage, and operate a bus transportation system." The Authority was created to have the power and duty to manage the property of the Authority. The State Legislature itself conferred upon the Authority the power and responsibility for the operation and management of the transit system. The Mayor of Duluth appoints eight community members to serve on the Authority's Board of Directors that oversees the Authority, while the Mayor of the City of Superior appoints one voting Board member.

The Authority provides both regular route bus transportation and STRIDE Dial-A-Ride transportation for disabled passengers. The Authority operates buses on 20 regular routes and provides service seven days a week. The Authority's regular route peak bus fleet numbered 55 buses through June 2003. Effective July 2003 and to the current date, the regular route peak bus fleet is at 41 buses due to a reduction in service and due to the loss of the Duluth Public School transportation contract. The Authority operated 1,789,540 miles and carried 2,709,249 regular route passengers and 25,296 disabled riders during 2005. The Authority also provided downtown circulator trolley service during the summer months.

The Authority has local taxing authority which is certified yearly by the Duluth City Council. Authority operations are funded from passenger revenues, nonoperating revenues, federal operating grants, Minnesota Department of Transportation operating grants, local tax pass-through monies, and local tax levies. City bonds and excess local operating monies are matched with federal and state capital grants to fund the acquisition and construction of capital assets. Bond debt service payments are deducted from the Authority's local share of tax levy proceeds.

## **FINANCIAL ANALYSIS**

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

As can be seen from the table, total net assets increased less than one percent in 2005 over 2004, which was \$16.70 million, but 13.2 percent over 2003's net assets of \$14.8 million. The increase in total net assets for 2004 was due to the acquisition of ten buses plus significant facility repairs including roof work, lot paving, and maintenance area rehabilitation. The increase in total net assets for 2005 was due to new fareboxes and office remodeling.

**Condensed Statements of Net Assets**  
(000s)

	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Assets			
Current assets	\$ 3,863	\$ 3,111	\$ 1,826
Capital assets	\$ 38,851	\$ 37,466	\$ 36,287
Less: depreciation	24,928	22,828	22,230
Capital Assets, Net	\$ 13,923	\$ 14,638	\$ 14,057
Total Assets	\$ 17,786	\$ 17,749	\$ 15,883
Current Liabilities	1,014	1,052	1,072
Net Assets			
Invested in capital assets, net of related debt	\$ 13,923	\$ 14,637	\$ 14,057
Restricted for transit operations and capital improvements	2,095	1,306	-
Unrestricted	754	754	754
Total Net Assets	\$ 16,772	\$ 16,697	\$ 14,811

**Condensed Statements of Revenues, Expenses, and Changes in Net Assets**  
(000s)

	Fiscal Year 2005 Actual	Fiscal Year 2005 Budget	Fiscal Year 2004 Actual	Fiscal Year 2003 Actual
Operating revenues	\$ 1,861	\$ 1,741	\$ 1,833	\$ 1,911
Nonoperating revenues	9,270	8,918	8,953	7,978
Total Revenues	\$ 11,131	\$ 10,659	\$ 10,786	\$ 9,889
Operating expenses	12,256	12,172	11,964	11,714
Income (Loss) Before Capital Contributions	\$ (1,125)	\$ (1,513)	\$ (1,178)	\$ (1,825)
Capital Contributions	1,200	1,200	3,064	758
Change in Net Assets	\$ 75	\$ (313)	\$ 1,886	\$ (1,067)
Net Assets - January 1	16,697	16,697	14,811	15,878
Net Assets - December 31	\$ 16,772	\$ 16,384	\$ 16,697	\$ 14,811

## **Revenues**

The Authority's operating revenues are derived from various sources: passenger revenue, charter revenue, and other revenues such as transit advertising and subsidies. Operating revenues increased by \$27,503 to \$1.86 million in 2005, up from \$1.83 million in 2004. The main factor in this increase is the new fares adopted in August 2005. Nonoperating revenues, increased from \$8.95 million in 2004 to \$9.27 million in 2005. This was an increase of 3.5 percent.

## **Expenses**

The Authority's 2005 operating expenses increased by \$292,635 over 2004 operating expenses of \$11.96 million, which is the increase of the price of diesel fuel and gasoline.

## **BUDGETARY HIGHLIGHTS**

The Authority creates an annual operating budget, which includes proposed expenses and means of financing them. Once management and the Board of Directors approve the budget, it is presented to the Duluth City Council for final approval. The Minnesota Department of Transportation also reviews and approves the Authority operating budget. The Authority's operating budget remains in effect the entire year and is not revised. Management and the Authority Board of Directors are presented detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

Future state, federal, and local budget constraints play a large part in the Authority's continued ability to serve the riding public. Nearly one-third of the state's subsidy comes from the Motor Vehicle Sales Tax, and this money is not guaranteed.

## **CAPITAL ASSETS**

By the end of fiscal year 2005, the Duluth Transit Authority had invested \$38.85 million in capital assets. The \$1.39 million of additional capital assets for this past fiscal year is primarily due to the purchase and installation of a new farebox system.

The Authority's five-year capital plan includes the replacement of approximately 20 full-size buses and nine STRIDE vehicles. Additional capital improvements are also scheduled if adequate local, state, and federal funding is obtained.

## **ECONOMIC AND OTHER FACTORS**

The Authority considered many factors when setting the fiscal year 2005 budget. The Authority continues to promote its U-Pass collegiate pass program. The U-Pass program has increased regular route ridership by over 164,000 rides over calendar year 2000 levels. In the summer of 2002, the Authority began a comprehensive operational analysis (COA). This COA reviewed ridership on each of the 20 transit routes in Duluth and Superior. This information was used to

adjust bus service to meet the state's revised funding formula effective July 1, 2003. The 2005 budget reflects the new state formula that funds up to 80 percent of regular route expenses and 85 percent of STRIDE expenses. This formula, however, also capped the Authority's total operating expenses, so some services will end up being paid for locally with no state participation. This will be a concern for future years, unless the state allocates sufficient funds to fully fund the new formulas. The growth in state funds has not kept pace with inflation and is expected to actually decrease in the upcoming biennium.

## **FINANCIAL CONTACT**

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, Duluth Transit Authority, 2402 West Michigan Street, Duluth, Minnesota 55806.

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## **BASIC FINANCIAL STATEMENTS**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT A**

**COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,942,773	\$ 2,129,072
Accounts receivable	188,451	144,145
Due from federal government	305,630	105,926
Due from State of Minnesota	65,932	42,246
Taxes receivable	56,935	94,347
Due from the City of Duluth	-	307,579
Due from other governments	118,198	112,911
Inventory	168,807	159,788
Prepaid items	15,873	15,093
	<b>\$ 3,862,599</b>	<b>\$ 3,111,107</b>
Noncurrent assets		
Capital assets	\$ 38,851,247	\$ 37,465,543
Less: allowance for depreciation	(24,927,920)	(22,827,955)
	<b>\$ 13,923,327</b>	<b>\$ 14,637,588</b>
<b>Noncurrent assets (net)</b>	<b>\$ 13,923,327</b>	<b>\$ 14,637,588</b>
<b>Total Assets</b>	<b>\$ 17,785,926</b>	<b>\$ 17,748,695</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 310,958	\$ 360,240
Accrued salaries payable	186,518	177,523
Accrued vacation payable	455,792	450,616
Claims and judgments payable	4,988	4,988
Deferred revenue	55,569	57,986
	<b>\$ 1,013,825</b>	<b>\$ 1,051,353</b>
<b>Total Liabilities</b>	<b>\$ 1,013,825</b>	<b>\$ 1,051,353</b>
<b>Net Assets</b>		
Invested in capital assets	\$ 13,923,327	\$ 14,637,588
Restricted for transit operations and capital improvements	2,094,600	1,305,612
Unrestricted	754,174	754,142
	<b>\$ 16,772,101</b>	<b>\$ 16,697,342</b>
<b>Total Net Assets</b>	<b>\$ 16,772,101</b>	<b>\$ 16,697,342</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT B**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>		
Charges for services	\$ <b>1,861,041</b>	\$ <b>1,833,538</b>
<b>Operating Expenses</b>		
Personal services	\$ 7,448,136	\$ 7,255,576
Supplies	1,441,198	1,036,085
Utilities	264,086	238,203
Other services and charges	1,003,311	917,876
Depreciation and amortization	2,099,965	2,516,321
<b>Total Operating Expenses</b>	<b>\$ 12,256,696</b>	<b>\$ 11,964,061</b>
<b>Operating Income (Loss)</b>	<b>\$ (10,395,655)</b>	<b>\$ (10,130,523)</b>
<b>Nonoperating Revenues</b>		
Investment earnings	\$ 66,799	\$ 23,354
Property taxes	1,316,900	1,063,100
Property tax replacement aid - state	1,455,073	1,717,114
Operating grants		
Federal	856,502	1,007,223
State	4,608,054	4,239,404
City of Superior, Wisconsin	966,809	902,913
<b>Total Nonoperating Revenues</b>	<b>\$ 9,270,137</b>	<b>\$ 8,953,108</b>
<b>Net Income (Loss) Before Capital Contributions</b>	<b>\$ (1,125,518)</b>	<b>\$ (1,177,415)</b>
<b>Capital Contributions</b>		
Federal	\$ 1,050,851	\$ 3,345,837
State	149,426	133,917
City of Duluth	-	542,084
Other - Transit Hub	-	(957,979)
<b>Total Capital Contributions</b>	<b>\$ 1,200,277</b>	<b>\$ 3,063,859</b>
<b>Change in Net Assets</b>	<b>\$ 74,759</b>	<b>\$ 1,886,444</b>
<b>Net Assets - January 1</b>	<b>16,697,342</b>	<b>14,810,898</b>
<b>Net Assets - December 31</b>	<b>\$ 16,772,101</b>	<b>\$ 16,697,342</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT C**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 1,815,668	\$ 1,716,864
Cash paid to suppliers	(2,767,676)	(2,209,454)
Cash paid to employees	(7,433,965)	(7,268,127)
<b>Net cash provided by (used for) operating activities</b>	<b>\$ (8,385,973)</b>	<b>\$ (7,760,717)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Property taxes and aids	\$ 1,354,312	\$ 991,790
Property tax replacement aid - state	1,455,073	1,717,114
Federal operating grants	656,798	1,063,159
State operating grants	4,584,368	4,306,835
City of Superior, Wisconsin, operating funds	960,172	916,741
City of Duluth operating funds	-	15,535
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>\$ 9,010,723</b>	<b>\$ 9,011,174</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital grants and contributions	\$ 1,507,856	\$ 3,714,259
Acquisition of capital assets	(1,385,704)	(4,055,131)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>\$ 122,152</b>	<b>\$ (340,872)</b>
<b>Cash Flows from Investing Activities</b>		
Investment earnings	\$ 66,799	\$ 23,354
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 813,701</b>	<b>\$ 932,939</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>2,129,072</b>	<b>1,196,133</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 2,942,773</b>	<b>\$ 2,129,072</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>		
Net operating loss	\$ (10,395,655)	\$ (10,130,523)
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities</b>		
Depreciation and amortization	2,099,965	2,516,321
Decrease (increase) in receivables	(42,956)	(116,929)
Decrease (increase) in inventory	(9,019)	(711)
Decrease (increase) in prepaids	(780)	(9,399)
Increase (decrease) in payables	(35,111)	(19,731)
Increase (decrease) in deferred revenue	(2,417)	255
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ (8,385,973)</b>	<b>\$ (7,760,717)</b>

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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1. Summary of Significant Accounting Policies

The Duluth Transit Authority for the City of Duluth was established pursuant to 1969 Minn. Laws, ch. 720, as amended. Its function is to administer, promote, control, direct, manage, and operate a bus transportation system. The Authority is governed by a nine-member board of directors appointed by the Mayor and approved by the City Council. One member, whose name is submitted to the Mayor of Duluth by the City of Superior, Wisconsin, serves as a director during any time the City of Superior contracts with the Authority for bus service.

Under 1969 Minn. Laws, ch. 720, § 5, subd. 3, the Authority is granted the power to enter into a management contract with any person, firm, or corporation for the management of the transit system. Effective November 1, 2001, the Authority renewed its contract with ATE Management and Service Company, Inc., (ATE Management) to manage the public transportation system for a five-year period. ATE Management employs all personnel required to operate the Authority; the Authority has no employees.

The accounting policies of the Authority conform to generally accepted accounting principles.

A. Financial Reporting Entity

For financial reporting purposes, a reporting entity includes all funds, organizations, account groups, agencies, boards, commissions, and authorities for which it is financially accountable, and other organizations for which the nature and significance of their relationship with it are such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the reporting entity to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the reporting entity.

As required by generally accepted accounting principles, these financial statements present the Duluth Transit Authority, a component unit of the City of Duluth. The Authority is included in the City of Duluth's reporting entity because of the significance of its operational or financial relationships with the City.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Fund Accounting

The accounts of the Authority are presented as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprises--where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and net income is desired for purposes of facilitating management control and accountability.

Enterprise funds distinguish operating revenues from nonoperating items. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. The principal operating revenues of the Authority are charges to customers for bus service. All revenues not meeting this definition are reported as nonoperating revenues.

C. Basis of Accounting

The Authority follows the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Pursuant to GASB Statement 20, the Authority has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Significant Accounting Treatments

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Investments are reported at fair value.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

2. Inventories

The diesel fuel and gasoline inventories are based on perpetual records and priced using the moving average method. The materials and supplies inventory is also based on perpetual records but priced at cost using the first-in, first-out method.

3. Capital Assets and Depreciation

The Authority defines capital assets as any item that is financed by a capital grant regardless of cost. All other capital assets are subject to an initial individual cost of \$5,000 or more. All purchased or constructed capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

<u>Classification Range</u>	<u>Range</u>
Buildings and structures	10 to 40 years
Furniture and equipment	5 to 10 years
Revenue vehicles	5 to 10 years
Shop and garage equipment	5 to 15 years

4. Deferred Revenue

Unredeemed student tickets and tokens are reported as deferred revenue until they are earned.

5. Property Tax Revenue

A property tax levy was established to finance operations. In Minnesota, counties act as collection agents for all property taxes. Tax settlements are received four times a year--in January, June, July, and December. Property taxes are recognized as revenue in the year of the levy.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Significant Accounting Treatments (Continued)

6. Capital Contributions

Capital grants received for the acquisition and construction of capital assets are reported as capital contributions. Also reported in this category are capital contributions expenses for transit hubs constructed using capital grants that were transferred to other entities in 2004.

7. Net Assets Restricted for Transit Operations and Capital Improvements

The Authority received a Public Transit Participation Program grant that requires it to deposit in a reserve account any operating revenues it generates in excess of its local share amount, which is set by statute. This reserve account is to be used for approved operating expenses not covered by the grant or for part of the local share of capital expenses of the transit system. At December 31, 2005, net assets restricted for transit operations and capital improvements were \$2,094,600.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Authority's policy to use restricted resources first.

2. Detailed Notes on All Accounts

A. 2005 and 2004 Budget to Actual

Minn. Laws 1969, ch. 720, requires an annual budget approved by the City Council of Duluth. Below is a summary statement of budgeted and actual revenues and expenses for the years ended December 31, 2005 and 2004.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2005 and 2004 Budget to Actual (Continued)

	2005		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 1,741,071	\$ 1,861,041	\$ 119,970
Operating Expenses			
Personal services	\$ 7,805,701	\$ 7,448,136	\$ 357,565
Supplies	894,410	1,441,198	(546,788)
Utilities	268,000	264,086	3,914
Other services and charges	1,103,894	1,003,311	100,583
Depreciation and amortization	2,099,965	2,099,965	-
Total Operating Expenses	\$ 12,171,970	\$ 12,256,696	\$ (84,726)
Operating Income (Loss)	\$ (10,430,899)	\$ (10,395,655)	\$ 35,244
Nonoperating Revenues			
Investment earnings	\$ -	\$ 66,799	\$ 66,799
Property taxes	1,316,900	1,316,900	-
Property tax replacement aid - state	1,730,000	1,455,073	(274,927)
Operating grants			
Federal	855,000	856,502	1,502
State	4,001,768	4,608,054	606,286
City of Superior, Wisconsin	1,014,355	966,809	(47,546)
Total Nonoperating Revenues (Expenses)	\$ 8,918,023	\$ 9,270,137	\$ 352,114
Net Income (Loss)	\$ (1,512,876)	\$ (1,125,518)	\$ 387,358
Capital Contributions			
Federal	\$ 1,050,851	\$ 1,050,851	\$ -
State	149,426	149,426	-
Total Capital Contributions	\$ 1,200,277	\$ 1,200,277	\$ -
Change in Net Assets	\$ (312,599)	\$ 74,759	\$ 387,358

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

A. 2005 and 2004 Budget to Actual (Continued)

	2004		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Charges for services	\$ 1,922,567	\$ 1,833,538	\$ (89,029)
Operating Expenses			
Personal services	\$ 7,424,036	\$ 7,255,576	\$ 168,460
Supplies	865,591	1,036,085	(170,494)
Utilities	254,850	238,203	16,647
Other services and charges	1,100,608	917,876	182,732
Depreciation and amortization	2,516,321	2,516,321	-
Total Operating Expenses	\$ 12,161,406	\$ 11,964,061	\$ 197,345
Operating Income (Loss)	\$ (10,238,839)	\$ (10,130,523)	\$ 108,316
Nonoperating Revenues			
Investment earnings	\$ -	\$ 23,354	\$ 23,354
Property taxes	171,726	1,063,100	891,374
Property tax replacement aid - state	1,373,691	1,717,114	343,423
Operating grants			
Federal	910,000	1,007,223	97,223
State	4,365,260	4,239,404	(125,856)
City of Superior, Wisconsin	901,841	902,913	1,072
Total Nonoperating Revenues (Expenses)	\$ 7,722,518	\$ 8,953,108	\$ 1,230,590
Net Income (Loss)	\$ (2,516,321)	\$ (1,177,415)	\$ 1,338,906
Capital Contributions			
Federal	\$ 3,345,837	\$ 3,345,837	\$ -
State	133,917	133,917	-
City of Duluth	542,084	542,084	-
Other – Transit Hub	(957,979)	(957,979)	-
Total Capital Contributions	\$ 3,063,859	\$ 3,063,859	\$ -
Change in Net Assets	\$ 547,538	\$ 1,886,444	\$ 1,338,906

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes on All Accounts (Continued)

B. Deposits and Investments

1969 Minn. Laws, ch. 720, designates the City of Duluth Treasurer as Treasurer of the Authority. Minn. Stat. §§ 118A.02 and 118A.04 authorize the City Treasurer to deposit the Authority's cash and invest in certificates of deposit in financial institutions designated by the Duluth City Council.

Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of securities available to the City of Duluth Treasurer.

Additional disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the City of Duluth Comprehensive Annual Financial Report. The Authority is a component unit of the City of Duluth.

The following is a summary of the Authority's cash:

	December 31	
	2005	2004
City Treasurer - savings account	\$ 2,160,489	\$ 1,193,690
City Treasurer - checking account	613,927	748,598
ATE management - checking account	152,897	171,324
Petty cash fund and change funds	15,460	15,460
	<hr/>	<hr/>
Total Cash and Cash Equivalents	\$ 2,942,773	\$ 2,129,072

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2005 and 2004, follows:

	Balance January 1, 2005	Increase	Decrease	Balance December 31, 2005
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ 99,886	\$ -	\$ -	\$ 99,886
Buildings and structures	14,226,109	381,529	-	14,607,638
Revenue equipment	18,967,148	903,507	-	19,870,655
Shop and garage equipment	981,892	82,695	-	1,064,587
Office furniture and equipment	2,914,538	17,973	-	2,932,511
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 37,243,176	\$ 1,385,704	\$ -	\$ 38,628,880
Less: accumulated depreciation for				
Land improvements	\$ 9,989	\$ 9,988	\$ -	\$ 19,977
Buildings and structures	8,728,890	395,466	-	9,124,356
Revenue equipment	12,089,955	1,358,034	-	13,447,989
Shop and garage equipment	682,812	61,977	-	744,789
Office furniture and equipment	1,280,708	268,499	-	1,549,207
Other	35,601	6,001	-	41,602
Total accumulated depreciation	\$ 22,827,955	\$ 2,099,965	\$ -	\$ 24,927,920
Total capital assets depreciated, net	\$ 14,415,221	\$ (714,261)	\$ -	\$ 13,700,960
Capital Assets, Net	\$ 14,637,588	\$ (714,261)	\$ -	\$ 13,923,327

  

	Balance January 1, 2004	Increase	Decrease	Balance December 31, 2004
Capital assets not depreciated				
Land	\$ 222,367	\$ -	\$ -	\$ 222,367
Capital assets depreciated				
Land improvements	\$ -	\$ 99,886	\$ -	\$ 99,886
Buildings and structures	14,155,756	168,107	97,754	14,226,109
Revenue equipment	18,118,492	2,757,538	1,908,882	18,967,148
Shop and garage equipment	921,206	60,686	-	981,892
Office furniture and equipment	2,815,624	98,914	-	2,914,538
Other	53,603	-	-	53,603
Total capital assets depreciated	\$ 36,064,681	\$ 3,185,131	\$ 2,006,636	\$ 37,243,176

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

2. Detailed Notes on All Accounts

C. Capital Assets (Continued)

	Balance January 1, 2004	Increase	Decrease	Balance December 31, 2004
Less: accumulated depreciation for				
Land improvements	\$ -	\$ 9,989	\$ -	\$ 9,989
Buildings and structures	8,369,030	369,636	9,776	8,728,890
Revenue equipment	12,180,954	1,817,883	1,908,882	12,089,955
Shop and garage equipment	629,104	53,708	-	682,812
Office furniture and equipment	1,021,604	259,104	-	1,280,708
Other	29,600	6,001	-	35,601
Total accumulated depreciation	<u>\$ 22,230,292</u>	<u>\$ 2,516,321</u>	<u>\$ 1,918,658</u>	<u>\$ 22,827,955</u>
Total capital assets depreciated, net	<u>\$ 13,834,389</u>	<u>\$ 668,810</u>	<u>\$ 87,978</u>	<u>\$ 14,415,221</u>
Capital Assets, Net	<u>\$ 14,056,756</u>	<u>\$ 668,810</u>	<u>\$ 87,978</u>	<u>\$ 14,637,588</u>

Included in the deductions in 2004 is the transit hub at Miller Hill Mall. In prior years, this was reported as an asset of the Authority. It is owned by the mall and has been removed from the assets of the Authority. The net book value, \$87,978, is reported as a capital contribution expense on the Statement of Revenues, Expenses, and Changes in Net Assets.

D. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss related to transit liability and property damage are retained. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Risk management activities for transit liability and property damage include the purchase of commercial insurance coverage for claims exceeding \$100,000. The Authority retains the risk of loss for the first \$100,000 per occurrence. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. In addition, several incidents have occurred in the Authority's bus operation that are considered reasonably possible losses to the Authority. Reasonably possible losses are not reflected in the financial

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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2. Detailed Notes on All Accounts

D. Risk Management (Continued)

statements. The Authority has estimated that its exposure to reasonably possible losses range from \$21,000 to \$53,000. Changes in the balances of the claims and judgments liability for the years ended December 31, 2005 and 2004, were as follows:

	Liability January 1	Claims and Changes in Estimates	Claim Payments	Liability December 31
2005	\$ 4,988	\$ -	\$ -	\$ 4,988
2004	4,988	-	-	4,988

3. Operations in the City of Superior, Wisconsin

The Authority provides regular and disability transit services to the City of Superior, Wisconsin, for which it charges Superior on a monthly basis. The monthly charge is determined by dividing the total operating expense for the month by the total hours operated in that month to determine an hourly cost. This rate was applied to the following month's hours operated in the City of Superior, reduced by revenues collected in Superior, to arrive at the monthly billing.

Charges to the City of Superior totaled \$1,086,784 for the year ended December 31, 2005, and \$1,015,881 for the year ended December 31, 2004. After deduction of the revenue collected in Superior of \$119,975 in 2005 and \$112,968 in 2004, the amounts actually billed were \$966,809 in 2005 and \$902,913 in 2004, which are included as nonoperating revenues.

4. Management Agreement

Though the Duluth Transit Authority has no employees, it has entered into a Management Agreement with ATE Management and Service Company, Inc., and its subsidiary ATE Management of Duluth, Inc., (collectively referred to as ATE). Under the terms of this agreement, the Authority is liable to ATE on a monthly basis for all employee compensation and benefits under the collective bargaining agreement between ATE and its employees. At

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement (Continued)

the expiration or termination of this agreement, the Authority becomes directly liable to employees under the collective bargaining agreement. The contractual obligation of the Authority to employees of ATE is:

A. Vacation and Sick Leave

Employees of ATE are granted from 5 to 30 days of vacation time per year depending on their years of service and union bargaining unit. Vacation earned in one year must be used the following year or it is forfeited. The accrued vacation for all employees had an estimated value of \$455,792 and \$450,616 at December 31, 2005 and 2004, respectively, and is included as accrued vacation payable on the balance sheet.

Sick leave is earned at the rate of 30 days per year and may be accumulated to 60 days for employees with less than 10 years of service and to 120 days for those with over 10 years of service. Employees are not compensated for unused sick leave. Any liability for earned, unused sick leave is not recognized in the financial statements.

B. Retirement Plans

Defined Benefit Pension Plan

ATE's hourly paid employees participate in the Teamsters Central States, Southeast and Southwest Areas Pension Plan, a cost-sharing multiple-employer defined benefit plan. The plan is administered by the trustees of Central States, Southeast and Southwest Areas Pension Fund.

Plan trustees establish benefit provisions including monthly benefit amounts. Full-time hourly paid employees are eligible to participate in the plan. Employees who retire at or after age 60 with 20 years of credited service are entitled to a monthly retirement benefit. Benefits fully vest at age 65 with 5 years of participation or on reaching 10 years of service. Employees with 30 years of credited service may retire at any age and receive a monthly retirement benefit. Vested employees may retire at or after age 50 and receive reduced benefits. The plan also provides death and disability benefits.

Funding requirements are established by the plan trustees. The plan is in compliance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

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4. Management Agreement

B. Retirement Plans

Defined Benefit Pension Plan (Continued)

Contributions to the plan are required under the collective bargaining agreement between ATE and its employees. Contribution requirements depend on the benefit amount negotiated in the collective bargaining agreement. Covered employees are not required to make contributions to the plan. ATE's contribution was \$150 per full-time employee per week to June 2005, and \$158 per full-time employee per week thereafter.

ATE's contributions for the years ending December 31, 2005, 2004, and 2003, were \$799,418, \$743,434, and \$714,477, respectively, equal to the contractually required contributions for each year as set by the collective bargaining agreement.

The trustees of Central States, Southeast and Southwest Areas Pension Fund issue a publicly available financial report. The report may be obtained by writing to Central States, Southeast and Southwest Areas Pension Fund, 9377 West Higgins Road, Rosemont, Illinois 60018-4938.

Defined Contribution Plans

ATE salaried employees participate in the Duluth Transit Authority Money Purchase Pension Plan, a defined contribution plan. The plan is administered by ATE.

ATE establishes plan provisions and contribution requirements. Employees are eligible to participate when they have been employed for 120 days and are at least 20-1/2 years of age. ATE contributes 12 percent and the employee 2 percent of each participant's salary. ATE contributions fully vest after seven years of employment. Benefits depend solely on amounts contributed plus related investment earnings. Contributions were as follows:

	<u>2005</u>	<u>2004</u>
Employer	\$ 111,444	\$ 111,227
Employee	18,574	18,824

**SUPPLEMENTAL INFORMATION**

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 1**

**COMPARATIVE STATEMENT OF REVENUES  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Charges for Services</b>		
<b>Passenger fares for transit service</b>		
Adult fares	\$ 1,251,663	\$ 1,176,995
Senior citizen fares	99,224	67,250
Student fares	301,342	311,034
Disability fares	15,662	8,934
<b>Total passenger fares for transit service</b>	<b>\$ 1,667,891</b>	<b>\$ 1,564,213</b>
<b>Charter service revenues</b>	<b>\$ 21,554</b>	<b>\$ 20,405</b>
<b>Auxiliary transportation revenues</b>		
Advertising services	\$ 98,572	\$ 99,150
STRIDE	36,858	36,136
Other	36,166	113,634
<b>Total auxiliary transportation revenues</b>	<b>\$ 171,596</b>	<b>\$ 248,920</b>
<b>Total charges for services</b>	<b>\$ 1,861,041</b>	<b>\$ 1,833,538</b>
<b>Nonoperating and Other Revenues</b>		
Investment earnings	\$ 66,799	\$ 23,354
Property taxes	1,316,900	1,063,100
Property tax replacement aid - state	1,455,073	1,717,114
Operating grants		
Federal - Section 5307	855,000	1,004,513
Federal - other	1,502	2,710
State - regular route	4,267,693	3,893,454
State - disability service	340,361	345,950
City of Superior, Wisconsin - regular route	881,937	831,017
City of Superior, Wisconsin - disability service	84,872	71,896
Capital grants		
Federal	1,050,851	3,345,837
State	149,426	133,917
City of Duluth	-	542,084
<b>Total nonoperating and other revenues</b>	<b>\$ 10,470,414</b>	<b>\$ 12,974,946</b>
<b>Total Revenues</b>	<b>\$ 12,331,455</b>	<b>\$ 14,808,484</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005		
	Vehicle Operations	Vehicle Maintenance	General Administration
<b>Personal services</b>			
Labor			
Operations - salaries and wages	\$ 2,869,327	\$ -	\$ -
Other salaries and wages	-	743,015	540,497
Fringe benefits	2,280,133	586,415	428,749
<b>Total personal services</b>	<b>\$ 5,149,460</b>	<b>\$ 1,329,430</b>	<b>\$ 969,246</b>
<b>Supplies</b>			
Materials and supplies consumed			
Fuel and lubricants	\$ 785,669	\$ 11,258	\$ -
Tires and tubes	50,352	2,217	-
Other materials and supplies	55	462,539	129,108
<b>Total supplies</b>	<b>\$ 836,076</b>	<b>\$ 476,014</b>	<b>\$ 129,108</b>
<b>Utilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 264,086</b>
<b>Other services and charges</b>			
Services			
Management service fee	\$ -	\$ -	\$ 189,584
Professional and technical services	8,207	29,796	174,116
Temporary help	-	-	1,080
Other services	-	15,998	42,477
Casualty and liability costs	-	-	175,273
Taxes and fees	111	696	9,711
Miscellaneous			
Dues and subscriptions	-	-	16,036
Travel and meetings	115	4,590	16,032
Advertising and promotional media	-	-	34,979
Purchased transportation service	-	-	261,804
Other	-	612	21,360
Lease and rental expense	-	-	734
<b>Total other services and charges</b>	<b>\$ 8,433</b>	<b>\$ 51,692</b>	<b>\$ 943,186</b>
<b>Depreciation and amortization</b>	<b>\$ 1,639,642</b>	<b>\$ 93,325</b>	<b>\$ 366,998</b>
<b>Total Expenses*</b>	<b>\$ 7,633,611</b>	<b>\$ 1,950,461</b>	<b>\$ 2,672,624</b>

\*Includes expenses to operate a disability service (STRIDE). Total STRIDE expenses were \$573,396 for 2005 and \$535,703 for 2004.

**Schedule 2**

2004				
<u>Total</u>	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
\$ 2,869,327	\$ 2,841,890	\$ -	\$ -	\$ 2,841,890
1,283,512	-	767,863	508,694	1,276,557
3,295,297	2,165,048	594,851	377,230	3,137,129
<b>\$ 7,448,136</b>	<b>\$ 5,006,938</b>	<b>\$ 1,362,714</b>	<b>\$ 885,924</b>	<b>\$ 7,255,576</b>
\$ 796,927	\$ 541,469	\$ 9,558	\$ -	\$ 551,027
52,569	50,798	2,775	-	53,573
591,702	2,983	312,552	115,950	431,485
<b>\$ 1,441,198</b>	<b>\$ 595,250</b>	<b>\$ 324,885</b>	<b>\$ 115,950</b>	<b>\$ 1,036,085</b>
<b>\$ 264,086</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 238,203</b>	<b>\$ 238,203</b>
\$ 189,584	\$ -	\$ -	\$ 183,174	\$ 183,174
212,119	7,291	29,948	159,505	196,744
1,080	-	-	2,520	2,520
58,475	-	22,321	44,703	67,024
175,273	-	-	128,130	128,130
10,518	607	379	13,775	14,761
16,036	-	-	16,739	16,739
20,737	-	1,378	16,924	18,302
34,979	-	-	29,381	29,381
261,804	-	-	249,016	249,016
21,972	854	415	9,868	11,137
734	-	-	948	948
<b>\$ 1,003,311</b>	<b>\$ 8,752</b>	<b>\$ 54,441</b>	<b>\$ 854,683</b>	<b>\$ 917,876</b>
<b>\$ 2,099,965</b>	<b>\$ 2,165,665</b>	<b>\$ 85,056</b>	<b>\$ 265,600</b>	<b>\$ 2,516,321</b>
<b>\$ 12,256,696</b>	<b>\$ 7,776,605</b>	<b>\$ 1,827,096</b>	<b>\$ 2,360,360</b>	<b>\$ 11,964,061</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**ALLOCATION OF INCOME AND EXPENSE TO THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Month	2005			
	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior
<b>Regular Route</b>				
January	1,170	\$ 64.17	\$ 75,060	\$ 9,204
February	1,104	71.44	78,870	9,322
March	1,241	76.82	95,341	10,591
April	1,177	68.77	80,956	9,981
May	1,170	73.94	86,488	9,623
June	1,195	71.50	85,471	8,966
July	1,152	64.67	75,547 *	8,017
August	1,241	70.33	87,287	8,304
September	1,150	67.29	77,363	9,790
October	1,197	68.92	82,511	9,717
November	1,150	73.94	85,009	9,132
December	1,177	72.33	85,147	10,466
<b>Total Regular Route</b>	<b><u>14,124</u></b>		<b><u>\$ 995,050</u></b>	<b><u>\$ 113,113</u></b>
<b>Disability Service</b>				
January	201	\$ 30.31	\$ 6,499	\$ 471
February	207	35.44	7,725	562
March	209	35.46	7,800	491
April	251	32.61	8,584	593
May	236	34.81	8,622	569
June	193	33.61	6,911	508
July	182	33.47	6,515	476
August	231	33.82	8,219	632
September	222	33.35	7,811	720
October	235	35.20	8,679	678
November	207	36.34	7,939	636
December	192	31.45	6,430	526
<b>Total Disability Service</b>	<b><u>2,566</u></b>		<b><u>\$ 91,734</u></b> *	<b><u>\$ 6,862</u></b>

\* Monthly charge includes direct charter service costs of \$16.70 not included in the operating charge per hour.

\*\* Total charge includes \$4,884 of direct insurance costs (allocated monthly) not included in the operating charge per hour.

**Schedule 3**

2004					
Net Charges to the City of Superior	Total Hours Operating in Superior	Operating Charge Per Hour	Total Charge	Income from Runs in Superior	Net Charges to the City of Superior
\$ 65,856	1,177	\$ 69.19	\$ 81,450	\$ 8,619	\$ 72,831
69,548	1,124	66.85	75,139	9,609	65,530
84,750	1,241	64.30	79,803	9,625	70,178
70,975	1,195	65.16	77,892	9,202	68,690
76,865	1,152	64.89	74,721	8,850	65,871
76,505	1,195	67.70	80,929	8,112	72,817
67,530	1,203	61.52	75,073 *	8,312	66,761
78,983	1,215	65.65	79,791	8,241	71,550
67,573	1,150	61.01	70,143	9,804	60,339
72,794	1,197	66.54	79,662	8,786	70,876
75,877	1,150	66.56	76,524	8,708	67,816
74,681	1,214	71.80	87,136	9,378	77,758
<b>\$ 881,937</b>	<b>14,213</b>		<b>\$ 938,263</b>	<b>\$ 107,246</b>	<b>\$ 831,017</b>
\$ 6,028	203	\$ 24.05	\$ 5,283	\$ 410	\$ 4,873
7,163	208	30.65	6,790	492	6,298
7,309	223	30.64	7,225	552	6,673
7,991	216	31.69	7,260	538	6,722
8,053	174	34.69	6,443	455	5,988
6,403	202	30.20	6,515	521	5,994
6,039	161	30.98	5,387	416	4,971
7,587	190	31.31	6,364	466	5,898
7,091	174	35.12	6,500	405	6,095
8,001	190	32.28	6,540	509	6,031
7,303	200	33.17	7,041	487	6,554
5,904	205	28.67	6,270	471	5,799
<b>\$ 84,872</b>	<b>2,346</b>		<b>\$ 77,618</b> **	<b>\$ 5,722</b>	<b>\$ 71,896</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*Schedule 4*

**DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS  
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005		2004
<b>Deficit recognized for the City of Superior</b>			
Regular route	\$ 881,937		\$ 831,017
Disability service	84,872		71,896
<b>Total</b>	<b>\$ 966,809</b>		<b>\$ 902,913</b>
<b>Federal funding - lower of the following</b>			
Percentage limit - 50% of regular route deficit	\$ 440,969		\$ 415,509
Maximum federal share per grant agreement	320,277	(320,277)	278,967 (278,967)
<b>Deficit recognized by the Wisconsin Department of Transportation</b>			
Net charges to the City of Superior	\$ 966,809		\$ 902,913
Less: maximum federal share	(320,277)		(278,967)
<b>Non-Federal Share</b>	<b>\$ 646,532</b>		<b>\$ 623,946</b>
<b>Wisconsin Department of Transportation funding - lower of the following</b>			
Non-federal share	\$ 646,532		\$ 623,946
Percentage limit for 2005 - 30.03% of operating expenses	326,361		N/A
Percentage limit for 2004 - 32.3% of operating expenses	N/A		328,129
Maximum Wisconsin Department of Transportation share per grant agreement	333,680	(326,361)	325,279 (325,279)
<b>Local Funds Required - City of Superior, Wisconsin</b>	<b>\$ 320,171</b>		<b>\$ 298,667</b>

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*Schedule 5*

**DEFICIT RECOGNIZED FOR FEDERAL AND STATE OPERATING FUNDS  
FOR OPERATIONS IN THE CITY OF SUPERIOR, WISCONSIN  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
<b>Regular Route</b>		
Operating revenues in the City of Superior	\$ 113,113	\$ 107,246
Operating expenses in the City of Superior	(995,050)	(938,263)
<b>Regular Route Deficit Recognized for Federal and State Operating Funds</b>	<b>\$ (881,937)</b>	<b>\$ (831,017)</b>
 <b>Disability Service</b>		
Operating revenues in the City of Superior	\$ 6,862	\$ 5,722
Operating expenses in the City of Superior	(91,734)	(77,618)
<b>Disability Service Deficit Recognized for State Operating Funds</b>	<b>\$ (84,872)</b>	<b>\$ (71,896)</b>

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**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 6**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the basic financial statements of the Duluth Transit Authority.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of the Duluth Transit Authority and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The reportable condition is not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Duluth Transit Authority were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the Duluth Transit Authority expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program cluster is:

Federal Transit Capital Improvement Grant	CFDA #20.500
Federal Transit Formula Grants	CFDA #20.507
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Duluth Transit Authority was determined to be a low-risk auditee.

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Segregation of Duties

Due to the limited number of office personnel within the Duluth Transit Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Authority; however, the Authority's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the Duluth Transit Authority's management be aware of the lack of segregation of accounting functions and develop oversight procedures to ensure that the Authority's internal control policies and procedures are followed by staff.

Client's Response:

*We are aware of the limited personnel and continue to monitor duties. Oversight procedures are in place to ensure that our internal control policies and procedures are being followed.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-2 Advertisements for Bids

The Authority's Board of Directors adopted an alternative bid dissemination policy at its March 2005 Board meeting. The Duluth Transit Authority could not document that it complied with Minn. Stat. § 331A.03 when it used an alternative dissemination process for soliciting bids for fareboxes acquired in 2005. Also, documentation verifying the advertisement for a roofing project bid could not be located.

Minn. Stat. § 331A.03, subd. 3, allows the Authority to use its website or a recognized industry trade journal for the dissemination of bids subject to certain requirements. The requirements include the publication, in its official newspaper, of a description of the bids so disseminated including the means by which the dissemination occurred. In addition, for the first six months after the Authority designates an alternative means of dissemination, it must continue to publish bids in its official newspaper in addition to the alternative method. The publication in the official newspaper must indicate where to find the designated alternative method.

We recommend that centralized bid files be maintained documenting the bidding process and including required forms and records.

Client's Response:

*The Authority has established a system for maintaining procurement files.*

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-1 Cash Account Reconciliation

The Duluth Transit Authority is not effectively reconciling its general ledger cash account with the City of Duluth.

*Schedule 6*  
*(Continued)*

In June 2005, the Authority closed its operating account with the City, which then became part of the City's pooled cash and investment account. The Authority did not reconcile the cash account to the balance as reported by the City until December 31, 2005. In our testing, we noted three payments totaling \$173,143 deposited into the City account in August and November 2005, but not recorded in the Authority's general ledger. These unrecorded transactions would have been found timely if reconciliations had been performed.

We recommend the Authority's management develop a policy requiring timely reconciliation of its cash balance to the City's balance.

Client's Response:

*The Authority and the City Treasurer's Office have developed a procedure to reconcile the Authority's cash account in a timelier manner.*

## **OTHER REQUIRED REPORTS**

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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mayor and City Council  
City of Duluth

Board of Directors  
Duluth Transit Authority

We have audited the basic financial statements of the Duluth Transit Authority as of and for the year ended December 31, 2005, and have issued our report thereon dated February 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Duluth Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Duluth Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness, because the Duluth Transit Authority has no long-term debt.

The results of our tests indicate that, for the items tested, the Duluth Transit Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-2.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: February 22, 2006



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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council  
City of Duluth

Board of Directors  
Duluth Transit Authority

Compliance

We have audited the compliance of the Duluth Transit Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2005. The Duluth Transit Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Duluth Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Duluth Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

#### Internal Control Over Compliance

The management of the Duluth Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Duluth Transit Authority as of and for the year ended December 31, 2005, and have issued our report thereon dated February 22, 2006. Our audit was performed for the purpose of forming an opinion on the Duluth Transit Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: February 22, 2006

**DULUTH TRANSIT AUTHORITY  
DULUTH, MINNESOTA**

*Schedule 7*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>		
Direct		
Federal Transit Capital Investment Grant	20.500	\$ 978,580
Federal Transit Capital Assistance Formula Grant	20.507	72,271
Federal Transit Operating Assistance Formula Grant	20.507	855,000
Passed Through Minnesota Department of Transportation		
Public Transportation for Nonurbanized Areas	20.509	1,502
<b>Total Federal Awards</b>		<b><u>\$ 1,907,353</u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Duluth Transit Authority. The Authority's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting.
3. During 2005, the Authority did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agency.